Executive Summary

Financing SMEs and Entrepreneurs 2019: An OECD Scoreboard provides information on SME financing trends and policies for 46 countries around the world.

Bank lending to SMEs increased at a moderate pace across countries, with significant cross-country variation in 2017. Outstanding SME loans grew strongly in a majority of middle-income scoreboard countries at a median growth rate of almost 5%, with a few notable exceptions. In high-income countries, growth was more subdued at 2.2%, and in some cases negative, as for example in the United Kingdom and the United States, where demand for straight bank debt was curbed by the increased availability of alternative sources of finance. By contrast, in European countries most affected by the financial crisis, outstanding SME loans shrank by a median value of -3.9% in 2017.

At the same time, **a range of alternative financing instruments continue to expand,** often significantly.

- **Factoring volumes** were up by a median value of 3.3% in 2017, broadly in line with previous years, with demand from internationally active SMEs driving the growth of the industry;
- **Leasing and hire purchase activities** rose in 26 out of 34 countries at a median rate of 6.2%, with potential substitution effects for SME bank lending;
- **Private debt** grew by 10% globally and by 27% in Europe in 2017, pursuing the expansion, which began after the crisis. This instrument is of particular relevance for larger and more mature SMEs facing a major transition, such as a change in ownership, expansion into new markets and/or activities, or acquisitions;
- **Venture capital investments** also grew in a majority of countries, and the number of **SME listings** continued to expand in 2017, with 24 SME exchanges in operation in participating countries. Both markets were buoyed by relatively strong economic growth in 2017, as well as government support in many countries;
- **Online alternative finance** such as equity crowdfunding and peer-to-peer lending, expanded strongly in 2017, especially in those countries with relatively small markets. China, followed by the United States and the United Kingdom have the biggest online alternative finance markets for businesses. Available estimates suggest that **business angel investments** rose in both Europe (+9%) and in the United States (+12.6%).

These developments took place against the backdrop of broadly positive macroeconomic conditions, and improvements in the business environment. Global GDP grew by 3.6% in 2017 and **payment delays, bankruptcies and non-performing loans (NPLs) continued to decline** in a majority of scoreboard countries. The decline in bankruptcy rates was documented across the board, in countries with different levels of income and economic growth, credit conditions and loan growth.

Furthermore, in 2017, **credit conditions remained favourable** in a majority of countries, with the median SME interest rate declining for the seventh consecutive year. Survey data on the share of SME owners identifying access to finance as a major concern, together with low collateral requirements and rejection rates, also point to a stabilisation of the conducive credit conditions observed in recent years.

In this favourable context**, a growing share of SMEs relied on self-financing** for their investment needs and cash flow requirements in 2017. Survey data indicate that the share of SMEs citing sufficient internal funds as a reason for not applying for loans has been consistently increasing, from 35% in 2014 to 44% in 2018. These developments have also played a role in moderating demand for credit in recent years, as also evidenced by the low median growth rate in new SME lending of 0.4% in 2017, after the contraction observed in the previous year. The **share of long-term SME loans continued to rise** in 2017, growing by close to 1.5 percentage points, and by more than 10 percentage points over the 2007-17 period.

These positive developments mask the persistent difficulties that some SMEs, particularly micro-enterprises, innovative ventures, start-ups and young firms, continue to face in accessing finance, particularly in countries, where the recovery has been slower. Macro-economic prospects are also deteriorating, accompanied by a slowdown in global trade.

Intangible assets make up an increasing share of SMEs' assets, but they currently are used in only a limited manner to leverage finance, especially debt, since their value is difficult to assess and transaction costs are generally high. Country experiences illustrate that over time, policies can create a virtuous cycle, whereby transaction costs are lowered, and data and standard practices become more available.

SME finance remains high on government agendas around the globe. Four policy trends emerge:

- **Credit guarantees**, the most widespread instrument to support SME finance, are being expanded in scale and volumes, or modified in terms of eligibility criteria and the provision of complementary advisory services in many countries. One common objective is to better target specific SME segments, such as innovative firms, start-ups or women entrepreneurs;
- Governments have been focusing on addressing **payment delays**, for example by introducing payment codes and e-invoicing systems, and by incentivising timely payments from public bodies;
- An increasing number of countries have developed or improved their **regulatory frameworks** and introduced **targeted policies to support Fintech developments,** such as equity crowdfunding and peer-to-peer lending;
- Many countries have developed or increased **support to the venture capital industry,** mainly through the establishment or expansion of public funds co-investing with private actors.

SMEs need access to a range of financial instruments in order to unleash their full potential to contribute to inclusive economic growth. In this regard, several macro-economic, trade and financial risks could cloud the positive outlook or reverse recent improvements. In addition, data gaps on SME finance persist, and further efforts to improve the evidence base are needed, in particular with respect to data granularity, international comparability of survey data and the collection of information on non-bank sources of finance. This publication will continue to improve the evidence base in these areas and seek to better document the heterogeneity of the SME population. This will support governments in monitoring new developments in SME access to finance and designing appropriate framework conditions and targeted policies.

From:

Financing SMEs and Entrepreneurs 2019

An OECD Scoreboard

Access the complete publication at:

https://doi.org/10.1787/fin_sme_ent-2019-en

Please cite this chapter as:

OECD (2019), “Executive Summary”, in *Financing SMEs and Entrepreneurs 2019: An OECD Scoreboard*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/888a2ad1-en